

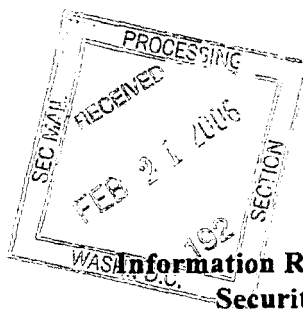


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SECURITIES AND COMMISSION  
Washington, D.C. 20549

AD 3/9/06

## OMB APPROVAL

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FORM X-17A-5  
PART III

SEC FILE NUMBER

8- 47441

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 ThereunderREPORT FOR THE PERIOD BEGINNING January 1, 2005 AND ENDING December 31, 2005  
MM/DD/YY MM/DD/YY

## A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Herman, Alexis &amp; Co., Inc.

OFFICIAL USE ONLY

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

FIRM I.D. NO.

633 West 5th Street, 28th Floor

Los Angeles (No. and Street) California 90071  
(City) (State) (Zip Code)NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Mark H. Rhynes (323) 971-6063

(Area Code - Telephone Number)

## B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Breard &amp; Associates Inc., Certified Public Accountants

9010 Corbin Avenue Suite 7 Northridge CA 91324  
(Address) (City) (State) (Zip Code)

## CHECK ONE:

- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions.

PROCESSED

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FINANCIAL

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

Potential persons who are to respond to the collection of  
information contained in this form are not required to respond  
unless the form displays a currently valid OMB control number.

E. A. Lopez

## OATH OR AFFIRMATION

I, Mark H. Rhynes, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Herman, Alexis & Co., Inc., as of December 31, 20 05, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

State of CALIFORNIA  
County of LOS ANGELES  
Subscribed and sworn (or affirmed) to before me this 19 day of JANUARY, 2006  
Herman E. Rhynes  
Notary Public

Mark H. Rhynes  
Signature  
CEO  
Title



This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss)
- ☒ (d) Statement of Changes in Cash Flows
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☒ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).**

# **BREARD & ASSOCIATES, INC.**

Certified Public Accountants

Board of Directors  
Herman, Alexis & Co., Inc.

In planning and performing our audit of the financial statements and supplemental schedules of Herman, Alexis & Co., Inc. for the year ended December 31, 2005, we considered its internal control structure, for the purpose for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by Herman, Alexis & Co., Inc. including tests of such practices and procedures that we considered relevant to objectives stated in rule 17a-5(g), in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making the quarterly securities examinations, counts, verifications and comparisons
2. Recordation of differences required by rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control structure and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures and of the practices and procedures referred to in the proceeding paragraph and to assess whether those practices and procedures can be expected to achieve the Commission's above mentioned objectives. Two of the objectives of an internal control structure and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with generally accepted accounting principles. Rule 17-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

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***We Focus & Care***<sup>SM</sup>

9010 Corbin Avenue, Suite 7  
Northridge, California 91324  
(818) 886-0940 • Fax (818) 886-1924  
[www.baicpa.com](http://www.baicpa.com)

**Herman, Alexis & Co., Inc.**  
**Statement of Financial Condition**  
**December 31, 2005**

**Assets**

Cash and cash equivalents	\$ 14,020
Marketable securities, at fair market value	<u>10,554</u>
<b>Total assets</b>	<b><u>\$ 24,574</u></b>

**Liabilities & Stockholders' Equity**

**Liabilities**

Accounts payable and accrued expenses	\$ 3,150
Income taxes payable	<u>4,307</u>
<b>Total liabilities</b>	<b>7,457</b>

**Stockholders' equity**

Common stock, no par value, 100 shares authorized, 100 shares issued and outstanding	100
Additional paid-in capital	136,378
Accumulated deficit	<u>(119,361)</u>
<b>Total stockholders' equity</b>	<b><u>17,117</u></b>
<b>Total liabilities &amp; stockholders' equity</b>	<b><u>\$ 24,574</u></b>

*The accompanying notes are an integral part of these financial statements.*

**Herman, Alexis & Co., Inc.**  
**Statement of Income**  
**For the Year Ended December 31, 2005**

**Revenue**

Commissions	\$ 975
Interest and dividends	246
Unrealized gain (loss) on investments	<u>4,104</u>

<b>Total revenue</b>	5,325
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**Expenses**

Occupancy	1,200
Other operating expenses	<u>868</u>

<b>Total expenses</b>	<u>2,068</u>
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Net income (loss) before income taxes	(3,257)
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<b>Total income tax provision</b>	<u>800</u>
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<b>Net income (loss)</b>	<u><u>\$ 2,457</u></u>
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*The accompanying notes are an integral part of these financial statements.*

**Herman, Alexis & Co., Inc.**  
**Statement of Changes in Stockholders' Equity**  
**For the Year Ended December 31, 2005**

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Total
Balance, January 1, 2005	\$ 100	\$ 130,696	\$ (121,818)	\$ 8,978
Proceeds from additional paid-in capital	-	5,682	-	5,682
Net income (loss)	-	-	2,457	2,457
Balance, December 31, 2005	<u>\$ 100</u>	<u>\$ 136,378</u>	<u>\$ (119,361)</u>	<u>\$ 17,117</u>

*The accompanying notes are an integral part of these financial statements.*

**Herman, Alexis & Co., Inc.**  
**Statement of Changes in Cash Flows**  
**For the Year Ended December 31, 2005**

**Cash flows from operating activities:**

Net income (loss)	\$ 2,457
Adjustments to reconcile net income (loss) to net cash and cash equivalents provided by (used in) operating activities:	
Unrealized gain on securities	\$ (4,104)
(Decrease) increase in:	
Accounts payable & accrued expenses	2,350
Income taxes payable	<u>(440)</u>
Total adjustments	<u>(2,194)</u>
Net cash and cash equivalents provided by (used in) operating activities	263

**Cash flows from investing activities:**

Purchase of marketable securities	<u>(4,800)</u>
Net cash and cash equivalents provided by (used in) investing activities	(4,800)

**Cash flows from financing activities:**

Proceeds from additional paid-in capital	<u>5,682</u>
Net cash and cash equivalents provided by (used in) financing activities	<u>5,682</u>

Net increase (decrease) in cash and cash equivalents	1,145
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Cash and cash equivalents at beginning of year	<u>12,875</u>
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Cash and cash equivalents at end of year	<u><u>\$ 14,020</u></u>
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**Supplemental disclosure of cash flow information:**

Cash paid during the year for	
Interest	\$ —
Income taxes	\$ —

*The accompanying notes are an integral part of these financial statements.*

**Herman, Alexis & Co., Inc.**  
**Notes to Financial Statements**  
**December 31, 2005**

**Note 1: GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*General*

Herman, Alexis & Co., Inc. (the "Company") was incorporated in the State of Delaware in February 1994, under the name Herman, Alexis & Co., Inc. The Company changed its name to Solomon, David, Herman, Alexis & Co., Inc. on April 4, 2002. On September 21, 2004, the Company changed the name back to Herman, Alexis & Co., Inc. The Company is a fully disclosed broker/dealer, whereby it does not hold customer funds or securities, and is registered under the Securities and Exchange Act of 1934, as amended. The Company is a member of the National Association of Securities Dealers, Inc. ("NASD") and the Securities Investor Protection Corporation ("SIPC").

The Company primarily sells mutual funds and performs limited consulting services. These services would include mergers and acquisitions and private placements. There are less than ten (10) consulting clients for the year 2005.

*Summary of Significant Accounting Principles*

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

For purposes relating to the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The Company also includes money market accounts as cash equivalents.

Commissions receivables are stated at face amount with no allowance for doubtful accounts. An allowance for doubtful accounts is not considered necessary because probable uncollectible accounts are immaterial.

Current income taxes are provided for estimated taxes payable or refundable based on tax returns filed on the cash basis of accounting. Deferred income taxes are recognized for the estimated future tax effects attributable to temporary differences in the basis of assets and liabilities for financial and tax reporting purposes. Measurement of current and deferred tax assets and liabilities is based on provisions of enacted federal and state tax laws.



**Herman, Alexis & Co., Inc.**  
**Notes to Financial Statements**  
**December 31, 2005**

**Note 1: GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

Commission income is generated from mutual fund trailers. Commission income and expenses are recorded on trade date basis.

The Company, with the consent of its Stockholders, has elected to be an S Corporation and accordingly has its income taxed under Section 1362 of the Internal Revenue Code, which provides that in lieu of corporate income taxes, the Stockholders are taxed on the Company's taxable income. Therefore, no provision or liability for Federal Income Taxes is included in these financial statements. The State of California has similar regulations, although there exists a provision for a minimum Franchise Tax and a tax rate of 1.5% over the minimum Franchise Fee of \$800.

The Company has elected to report the statement of changes in stockholders' equity without disclosing the accumulated adjustment account and other equity accounts pertinent to an S Corporation. There is no financial impact to these financial statements.

**Note 2: MARKETABLE SECURITIES, AT FAIR MARKET VALUE**

Marketable securities, at fair market value consist of common stock of the NASDAQ Stock Market, Inc. For the year ended December 31, 2005, the company included \$4,104 in unrealized gains in its statement of income for the mark-to-market of these securities.

**Note 3: INCOME TAXES**

As discussed in the Summary of Significant Accounting Policies (Note 1), the Company has elected the S Corporate tax status, therefore no federal income tax provision is provided. The tax provision consists of the following California franchise tax minimum: (See Note 5).

Current provision	\$ <u>800</u>
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**Herman, Alexis & Co., Inc.**  
**Notes to Financial Statements**  
**December 31, 2005**

**Note 4: RENT EXPENSE**

Current year rent expense consists of the following:

Storage rent	<u>\$ 1,200</u>
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The storage rent began January 1, 2005. The rent is paid to the majority shareholder. This rental agreement is in accordance with the NASD rules for expense sharing arrangement. (See Note 5.)

**Note 5: COMMITMENTS & CONTINGENCIES**

The Company owes California state taxes. The income taxes payable of \$4,307 includes the \$800 minimum California state tax provisions and penalties and interest that has accrued for the back taxes.

In accordance with the NASD expense-sharing agreement rules, the Company enter into such an arrangement in January, 2005. The Company will include storage fee and other incidental use of office equipment as an ongoing \$100 a month operating expenses. These expenses are being paid by a related party.

**Note 6: RECENTLY ISSUED ACCOUNTING STANDARDS**

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("FAS 123R"), which requires the measurement and recognition of compensation expense for all stock-based compensation payments including grants of employee stock options. Stock options are a valuable and important tool used by many companies as a means to motivate employees and promote business growth. This statement eliminates the ability to account for such share-based compensation transactions using the intrinsic value method as prescribed by Accounting Principles Board, or APB, Opinion No. 25, "Accounting for Stock Issued to Employees," and requires that such transactions be reflected in the financial statements based upon the estimated fair value of the awards. In addition, there are a number of other requirements under the new standard that will result in differing accounting treatment than currently required. These differences include, but are not limited to, the accounting treatment for the tax benefit on employee stock options and for stock issued under an employee stock purchase plan. FASB 123R becomes effective for all reports issued after June 15, 2005. Adoption of the new standard has not had a material effect upon the financial statements of the company.

**Herman, Alexis & Co., Inc.**  
**Notes to Financial Statements**  
**December 31, 2005**

**Note 7: NET CAPITAL**

The Company is subject to the uniform net capital rule (Rule 15c3-1) of the Securities and Exchange Commission, which requires both the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. Net capital and aggregate indebtedness change day to day, but on December 31, 2005, the Company's net capital of \$15,162 exceeded the minimum net capital requirement by \$10,162; and the Company's ratio of aggregate indebtedness (\$7,457) to net capital was 0.49 to 1, which is less than the 15 to 1 maximum ratio required of a Broker/Dealer.

**Note 8: RECONCILIATION OF AUDITED NET CAPITAL TO UNAUDITED FOCUS**

There is a \$475 difference between the computation of net capital under net capital Sec. Rule 15c3-1 and the corresponding unaudited focus part IIA.

Net capital per unaudited schedule	\$ 15,637
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Adjustments:

Additional paid-in capital	\$ 882
Accumulated deficit	(2,097)
Haircut on securities	(98)
Haircut on money market	(259)
Undue concentration	<u>1,097</u>
 Total adjustments	 <u>(475)</u>
 Net capital per audited statements	 <u><u>\$ 15,162</u></u>

**Herman, Alexis & Co., Inc.**  
**Schedule I - Computation of Net Capital Requirements**  
**Pursuant to Rule 15c3-1**  
**As of December 31, 2005**

**Computation of net capital**

Common stock	\$ 100	
Additional paid-in capital	136,378	
Accumulated deficit	<u>(119,361)</u>	
 <b>Total stockholders' equity</b>		<b>\$ 17,117</b>
 <b>Less: Non-allowable assets</b>		 <u>—</u>
 <b>Net capital before haircuts</b>		 17,117
 <b>Less: Haircuts and undue concentration</b>		
Haircut on securities	(1,583)	
Haircut on money market	(259)	
Undue concentration	<u>(113)</u>	
 <b>Total haircuts and undue concentration</b>		 <u>(1,955)</u>
 <b>Net capital</b>		 15,162
 <b>Computation of net capital requirements</b>		
Minimum net capital requirements		
6 2/3 percent of net aggregate indebtedness	\$ 497	
Minimum dollar net capital required	\$ 5,000	
Net capital required (greater of above)		<u>5,000</u>
 <b>Excess net capital</b>		 <u><u>\$ 10,162</u></u>

Ratio of aggregate indebtedness to net capital 0.49: 1

There was a \$475 difference in net capital computed above and that which was reported by the Company in Part II of Form X-17A-5. See Note 8.

*See independent auditor's report.*

**Herman, Alexis & Co., Inc.**  
**Schedule II - Computation for Determination of Reserve**  
**Requirements Pursuant to Rule 15c3-3**  
**As of December 31, 2005**

A computation of reserve requirement is not applicable to Herman, Alexis & Co., Inc. as the Company qualifies for exemption under Rule 15c3-3 (k)(2)(ii).

*See independent auditor's report.*

**Herman, Alexis & Co., Inc.**  
**Schedule III - Information Relating to Possession or Control**  
**Requirements Under Rule 15c3-3**  
**As of December 31, 2005**

Information relating to possession or control requirements is not applicable to Herman, Alexis & Co., Inc. as the Company qualifies for exemption under Rule 15c3-3 (k)(2)(ii).

*See independent auditor's report.*

**Herman, Alexis & Co., Inc.**  
**Supplementary Accountant's Report**  
**on Internal Accounting Control**  
**Report Pursuant to 17a-5**  
**For the Year Ended December 31, 2005**

**BREARD & ASSOCIATES, INC.**  
Certified Public Accountants

Independent Auditor's Report

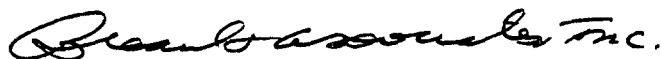
Board of Directors  
Herman, Alexis & Co., Inc.

We have audited the accompanying statement of financial condition of Herman, Alexis & Co., Inc. as of December 31, 2005 and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Herman, Alexis & Co., Inc. as of December 31, 2005 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained on Schedules I-III are presented for purposes of additional analysis and is not required as part of the basic financial statements, but as supplementary information required by rule 17a-5 of the Securities and Exchange Commission. Such information has been subject to the auditing procedures applied in the examination of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole and in conformity with the rules of the Securities and Exchange Commission.



Breard & Associates, Inc.  
Certified Public Accountants

Northridge, California  
January 20, 2006

*We Focus & Care<sup>SM</sup>*

9010 Corbin Avenue, Suite 7  
Northridge, California 91324  
(818) 886-0940 • Fax (818) 886-1924  
[www.baicpa.com](http://www.baicpa.com)




Because of inherent limitations in any internal control structure or the practices and procedures referred to above, errors or irregularities may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control structure, including procedures for safeguarding securities, that we considered to be material weakness as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the Commission to be adequate for its purpose in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate material inadequacy for such purposes. Based on this understanding on our study, we believe that the Company's practices and procedures were adequate at December 31, 2005 to meet the Commission's objectives.

This report is intended solely for the use of management, the Securities and Exchange Commission, and other regulatory agencies which rely on rule 17a-5(g) under the Securities Exchange Act of 1934 and should not be used for any other purpose.



Breard & Associates, Inc.  
Certified Public Accountants

Northridge, California  
January 20, 2006